

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Huron Behavioral Health	County Huron
Audit Date 9/30/04	Opinion Date 11/19/04	Date Accountant Report Submitted to State: 2-24-05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).	✓		
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Nietzke & Faupel, P.C.			
Street Address 7274 Hartley Street	City Pigeon	State MI	ZIP 48755
Accountant Signature <i>Brian Hazen CPA</i>		Date <i>2/24/05</i>	

HURON BEHAVIORAL HEALTH

HURON COUNTY, MICHIGAN

**FINANCIAL REPORT
SEPTEMBER 30, 2004**

**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN**

TABLE OF CONTENTS

	<u>PAGE NUMBER</u>
REPORT OF INDEPENDENT AUDITORS	i - ii
MANAGEMENT’S DISCUSSION AND ANALYSIS	iii - ix
BASIC FINANCIAL STATEMENTS:	1
Government-wide Financial Statements:	
Statement of Net Assets	2
Statement of Activities	3
FUND FINANCIAL STATEMENTS:	4
Balance Sheet – Governmental Funds	5
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	6
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds	7 - 9
Reconciliation of the Statement of Revenues, Expenditure and Changes in Fund Balances of Governmental Funds to the Statement of Activities	10
Statement of Fund Net Assets – Proprietary Fund	11
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Fund	12
Statement of Cash Flows – Proprietary Fund	13
Notes to the Financial Statements	14 – 26
REQUIRED SUPPLEMENTAL INFORMATION:	27
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual – Government-Wide	28
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PREFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	29

INDEPENDENT AUDITOR'S REPORT

To the Members of the Board
Huron Behavioral Health
Bad Axe, Michigan 48413

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Huron Behavioral Health as of and for the years ended September 30, 2004 and 2003, which collectively comprise Huron Behavioral Health's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Huron Behavioral Health management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Huron Behavioral Health as of September 30, 2004 and 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

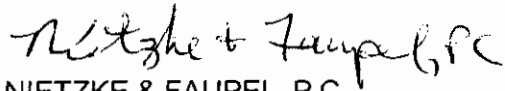
In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2004, on our consideration of Huron Behavioral Health's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

(Continued)

- i -

Report of Independent Auditors (Continued)

The management's discussion and analysis on pages iii - ix, and budgetary comparison information on page 28, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



NIETZKE & FAUPEL, P.C.
PIGEON, MICHIGAN

November 19, 2004

HURON BEHAVIORAL HEALTH

Management's Discussion and Analysis

For the year ended September 30, 2004

This section of the Huron Behavioral Health (HBH) annual financial report presents management's discussion and analysis of financial performance for the year ended September 30, 2004. This discussion and analysis is designed to assist the reader in focusing on significant financial issues and activities, and to identify significant changes in financial position and results of operations. Please read this section in conjunction with the auditor's report and with our financial statements, notes to financial statements and supplemental information taken as a whole.

The Michigan Department of Community Health (MDCH) contracts for Medicaid specialty supports and services through designated Prepaid Inpatient Health Plans (PIHPs) in regional geographic areas. Bay Arenac Behavioral Health Authority (BABHA) is the designated Medicaid PIHP for a region consisting of Arenac, Bay, Huron, Montcalm, Tuscola and Shiawassee counties. HBH is affiliated with and subcontracts for Medicaid funding through BABHA, rather than directly with the state. State general fund revenue and other grants and earned contracts are sourced directly from the state.

In fiscal 2004, HBH received a new source of revenue from MDCH entitled the Adults Benefit Waiver (ABW) program, authorized under Title XXI of the Social Security Act. This new program replaced and expanded upon the State Medical Program, and allowed for federal financial participation in its funding. To finance the ABW program, State General Fund Formula Funding to community mental health services programs, including HBH, was reduced.

FINANCIAL HIGHLIGHTS

- Operating results showed a surplus of \$85 thousand or 1.1% of revenue.
- Unrestricted net assets increased \$121 thousand or 3.6% to \$3.5 million.
- Funds restricted for capital purposes were fully funded for depreciation amounting to \$127 thousand and increasing the fund balance to \$262 thousand.
- Current financial position improved \$121 thousand or 3.6% to \$3.5 million.

OVERVIEW OF FINANCIAL STATEMENTS

Basic financial statements, in accordance with generally accepted accounting principles (GAAP) according to GASB 34, require the presentation of two types of financial statements. These are authority-wide statements and fund statements.

Authority-wide financial statements include the statement of net assets and the statement of activities. These provide both long-term and short-term information, and

HURON BEHAVIORAL HEALTH
Management's Discussion and Analysis
For the year ended September 30, 2004

present a broad view of the overall financial status in a manner similar to a private sector business. Information presented in these statements is on the accrual basis of accounting. Long-term assets are capitalized and depreciated. Long-term debt is recorded as a liability. Revenues are recorded when "earned" and expenses recorded when "incurred", without regard to the timing of cash receipts or disbursement.

The statement of net assets includes all assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of improving or deteriorating financial position. The statement of activities presents information showing how net assets changed during the year as a result of operating activity.

Fund financial statements contain individual groups of related accounts and are used to report current assets, current liabilities, fund balance, revenues and expenditures for specific activities or funds segregated for legal requirements or other governmental objectives. These are presented in more detail as compared to the authority-wide statements. The fund financial statements are reported on the modified accrual basis of accounting. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized only to the extent that they are normally expected to be paid with current financial resources. Purchased capital assets are reported as expenditures in the year of acquisition. Issuance of debt is recorded as a financial resource with current year payment of principal and interest recorded as an expenditure.

Fund financial statements are divided into two categories - governmental fund financial statements and proprietary fund financial statements.

Governmental fund financial statements show how the community mental health supports and services programs were financed in the short term as well as what remains for future spending.

Proprietary fund financial statements show internal service funds reserved for risk management. These funds are held as a self-funded insurance risk reserve to protect against unanticipated current and future financial exposures related to at-risk contracts.

SUMMARY OF NET ASSETS

The following summarizes the assets, liabilities and net assets on an authority-wide basis as of September 30, 2004 and 2003.

HURON BEHAVIORAL HEALTH
Management's Discussion and Analysis
For the year ended September 30, 2004

Summary of Net Assets

As of September 30, 2004 and 2003
(In \$000s)

	<u>2004</u>	<u>2003</u>	<u>Incr/ (Decr)</u>	<u>% Change</u>
<u>Assets</u>				
Current assets	\$ 4,126	\$ 3,866	\$ 260	6.7%
Restricted assets	707	598	109	18.2%
Capital assets	544	654	(110)	-16.8%
Total assets	<u>5,377</u>	<u>5,118</u>	<u>259</u>	5.1%
<u>Liabilities</u>				
Current liabilities	637	497	140	28.2%
Noncurrent liabilities	412	376	36	9.5%
Total liabilities	<u>1,049</u>	<u>873</u>	<u>176</u>	20.1%
<u>Net Assets</u>				
Investment in capital assets	544	654	(110)	-16.8%
Restricted for capital purposes	262	134	128	95.0%
Restricted for risk management	34	87	(53)	-61.3%
Unrestricted	3,489	3,369	120	3.6%
Total net assets	<u>\$ 4,329</u>	<u>\$ 4,244</u>	<u>\$ 85</u>	2.0%

Current financial position is defined as the excess of current assets over current liabilities. A positive current financial position is an indicator of financial strength and an increase in current financial position is an indicator of improving financial position.

The current financial position (excess of current assets over current liabilities) was a positive \$3.5 million, an increase of \$121 thousand or 3.6%, compared to prior year.

Current assets consist of cash and investments, accounts receivable, amounts due from others and prepaid expenses. These are available for current operations and to pay current obligations. Current liabilities include accounts payable, accrued payroll, related taxes and benefits, amounts due to others and deferred revenue.

At year-end, current liabilities include \$262 thousand of unspent Medicaid funding that is due to the PIHP under the local service area subcontract agreement. For the year, there were no state general funds left unspent and no amounts carried forward.

Restricted assets consist of cash, investments and accrued interest receivable. These assets are restricted for payment of compensated absences, severance pay, restricted for capital purposes (funded depreciation), and restricted for risk management. Restricted assets of \$707 thousand have increased by \$109 thousand or 18.3%.

HURON BEHAVIORAL HEALTH
Management's Discussion and Analysis
For the year ended September 30, 2004

Assets restricted for capital purposes (funded depreciation) are enabled by the Michigan Mental Health Code and are intended to preserve a source of funds for capital asset acquisition and liquidation of capital related debt. Annual funding of this account is not to exceed the amount of depreciation expense and the maximum amount of this account is not to exceed the total of accumulated depreciation on capital assets. For fiscal 2004, HBH fully funded its annual depreciation expense of \$127 thousand.

Assets restricted for risk management are related to the risk obligations of the state general fund (formula funds) risk contract. Amounts funded to this account in prior years, together with current year interest earnings, exceeded the maximum allowable funding. This excess of \$4 thousand was removed and used in current operations. The amounts expended under the state general fund risk contract exceeded the amounts provided by the state. To cover these expenditures, \$51 thousand of risk reserves and \$83 thousand of unrestricted local funds were used. The balance in this restricted fund account has been reduced to \$34 thousand and is of the equivalent of 3.0% of the funds at risk.

Capital assets consist of property and equipment having an estimated useful life of more than one year. These assets are stated at their original book value, net of accumulated depreciation.

In fiscal 2004, \$19 thousand was expended for capital acquisitions. Depreciation expense amounted to \$127 thousand. The net change in capital assets was a decrease of \$110 thousand for the year. When depreciation expense exceeds capital expenditures, the net decrease represents a reduction in capital resources available for the future.

As of year-end, the net book value of capital assets was 40% of the original book value, compared to 45% at the end of the prior year. This percentage is a measure of the relative age of property and equipment. If the percentage is low, it means that property and equipment is relatively old.

Noncurrent liabilities consist of the liability for compensated absences that includes vested vacation and sick pay obligations and certain deferred compensation amounts.

Restricted net assets include investment in capital assets, net of related debt, and amounts restricted for capital purposes (funded depreciation) and for risk management. These were discussed above.

Unrestricted net assets at the end of the year were \$3.5 million, an increase of \$121 thousand or 3.6% for the year. Unrestricted net assets were 65% of total assets, down 1% from 66% at the end of the prior year.

SUMMARY OF ACTIVITIES

The following summarizes the revenue, expenses and change in net assets on an authority-wide basis for the years ended September 30, 2004 and 2003.

HURON BEHAVIORAL HEALTH
Management's Discussion and Analysis
For the year ended September 30, 2004

Summary of Activities

For the years ended September 30, 2004 and 2003

(In \$000s)

	<u>2004</u>	<u>2003</u>	<u>Incr/ (Decr)</u>	<u>% Change</u>
<u>REVENUE</u>				
Medicaid specialty supports and services	\$ 5,599	\$ 5,663	\$ (64)	-1.1%
State general fund priority populations	1,058	1,040	18	1.7%
Adult benefit waiver program	142	-	142	0.0%
Program service revenue	585	566	19	3.3%
Grants and earned contracts	236	316	(80)	-25.3%
County appropriation	218	218	-	0.0%
Interest income	71	76	(5)	-6.7%
Other local income	27	23	4	17.9%
TOTAL REVENUE	<u>7,936</u>	<u>7,902</u>	<u>34</u>	<u>0.4%</u>
<u>EXPENSE</u>				
Contractual providers	1,256	1,190	66	5.6%
Program operations	5,212	5,255	(43)	-0.8%
Managed care administration	119	69	50	72.8%
General & Board administration	968	879	89	10.1%
Local funds contributed to State	169	169	-	0.0%
Depreciation	127	134	(7)	-5.2%
TOTAL EXPENSE	<u>7,851</u>	<u>7,696</u>	<u>155</u>	<u>2.0%</u>
SURPLUS OF REVENUE OVER EXPENSE	<u>85</u>	<u>206</u>	<u>(121)</u>	
Transfer to affiliate	-	(397)	397	
CHANGE IN NET ASSETS	<u>\$ 85</u>	<u>\$ (191)</u>	<u>\$ 276</u>	

Surplus of revenue over expenses from activities for the current year was \$85 thousand or 1.1% of revenue. This is a decrease of \$121 thousand from the prior year surplus of \$206 thousand or 2.6% of prior year revenue.

Revenue for the year was \$7.9 million, an increase of \$34 thousand or 0.4% from the prior year.

Medicaid specialty supports and services revenue of \$5.6 million represents 70.6% of total revenue and decreased \$64 thousand or 1.1% compared to the prior year. The source of Medicaid specialty supports and service revenues is a subcontract with the Medicaid PIHP for the region, Bay Arenac Behavioral Health Authority. This subcontract is on a net cost not to exceed basis. Unspent Medicaid subcontract funds of \$262 thousand are not revenue and are shown as amounts due to the PIHP as discussed above.

HURON BEHAVIORAL HEALTH
Management's Discussion and Analysis
For the year ended September 30, 2004

State general fund priority population revenue (formula funding) of \$1.1 million represents 13.3% of total revenue and increased \$17 thousand or 1.1% compared to the prior year. This funding is established by MDCH as a part of the legislative appropriation process under the Michigan Mental Health Code and is used to provide supports and services to indigent priority populations, including state facility utilization and other allowable expenses. Included in this revenue is a one-time transfer of \$100 thousand of state funding, transferred under Section 236 from an affiliate (Montcalm Center for Behavioral Health). This transfer is not expected to recur in the next year. Also included is \$28 thousand of unspent funds carried forward from the prior year.

As previously discussed, the amounts expended under the state general fund risk contract exceeded the amounts provided by the state, including the transfer and carry forward amounts. To cover these expenditures, \$51 thousand of risk reserves and \$83 thousand of unrestricted local funds were used. There was no lapse of state general funds in the current year and no unspent funds are available for carry forward into next year.

Program service revenue of \$585 thousand includes charges for services for consumers not covered by Medicaid risk contracts, state general funds or other risk or grant revenue sources. These represent 7.4% of total revenue and have increased \$19 thousand or 3.3% over the prior year. This revenue is a significant source of local funds needed to meet matching fund requirements, cover funding shortfalls in other areas and contribute to unrestricted fund balance.

Grants and earned contract revenue of \$236 thousand includes revenue sources for which the use of funds is restricted to a specific purpose. These represent 2.7% of total revenue and have decreased \$80 thousand or 25.3% from the prior year.

County appropriation revenue, interest income and other local income totaling \$317 thousand are available to meet state matching fund requirements and for other local purposes. These revenue sources constitute 4% of revenue and are unchanged in total from the prior year.

Total expense of \$7.9 million has increased \$155 thousand or 2% compared to the prior year.

Contractual provider expense of \$1.3 million include state facility, community hospital, residential, supported employment and transportation providers. These represent 16% of total expense, and have increased \$66 thousand or 5.6% over the prior year.

Program operations expense of \$5.2 million includes salaries, benefits and other operating costs of supports and services programs directly operated by HBH. These represent 66.4% of total expense, and have decreased \$43 thousand or 0.8% from the prior year.

Managed care administration expense of \$119 thousand includes the cost associated with these functions. They are in relation to at risk contracts held by HBH or

HURON BEHAVIORAL HEALTH
Management's Discussion and Analysis
For the year ended September 30, 2004

functions delegated to HBH by the regional Medicaid PIHP. These represent 1.5% of total expense, and have increased \$50 thousand or 72.8% over the prior year.

General and Board administration expense of \$968 thousand represents 12.3% of total expense, and has increased \$89 thousand or 10.1% over the prior year.

BUDGET

The fiscal 2004 budget process was particularly challenging, given the evolving managed care responsibilities in the PIHP Medicaid subcontract, the creation of the new Adult Benefit Waiver risk program, and the pressures placed on the State General Fund programs from the ABW funding diversion and other funding changes. Much of the year was operated on a continuation budget.

FUTURE OUTLOOK

The state of Michigan continues its struggle to balance huge budget deficits. Federal deficits are placing additional pressures on Medicaid funding. The effect of these on future funding for community mental health and specialty supports and services is unknown, but the outlook does not look favorable.

Management expects revenues to be flat at best. Support and service demand is expected to increase together with inflationary cost pressures.

Of particular concern is the State General Fund Formula Funding for priority populations under the Mental Health Code. There are no carry forward funds available for next year and the fund transfer from affiliates will likely not recur. Risk reserve and other local funds were expended in the current year to cover unfunded expenses.

While the financial position of HBH is currently healthy, balancing the priorities and budgets will become increasingly more difficult.

* * * * *

As always, questions, comments and suggestions are welcomed from interested parties and the general public. These can be directed to management.

BASIC FINANCIAL STATEMENTS

**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN**

**STATEMENT OF NET ASSETS
SEPTEMBER 30, 2004 AND 2003**

ASSETS	Governmental Activities	
	2004	2003
CURRENT ASSETS		
Cash and investments	\$ 3,677,964	\$ 3,469,660
Accounts receivable, net	110,295	149,708
Due from other governmental units	140,489	152,584
Prepaid expenses	197,683	93,576
TOTAL CURRENT ASSETS	4,126,431	3,865,528
NONCURRENT ASSETS		
Cash - restricted	707,462	597,997
Capital assets, land	25,000	25,000
Capital assets - depreciable, net	518,928	628,959
TOTAL NONCURRENT ASSETS	1,251,390	1,251,956
TOTAL ASSETS	\$ 5,377,821	\$ 5,117,484
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 141,679	\$ 114,345
Due to other governmental units	315,156	198,567
Deferred revenue		28,274
Accrued payroll	164,704	136,972
Accrued payroll taxes and benefits	15,495	18,814
TOTAL CURRENT LIABILITIES	637,034	496,972
NONCURRENT LIABILITIES		
Severance pay	61,480	58,000
Accrued compensated absences	350,583	318,395
TOTAL NONCURRENT LIABILITIES	412,063	376,395
TOTAL LIABILITIES	1,049,097	873,367
NET ASSETS		
Investment in capital assets, net of related debt	543,928	653,959
Restricted for capital purposes	261,653	134,297
Restricted for risk management	33,746	87,305
Unrestricted	3,489,397	3,368,556
TOTAL NET ASSETS	\$ 4,328,724	\$ 4,244,117

The accompanying notes are an integral part
of the financial statements.

**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN**

**STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

Functions	Expenses	Program Revenue		Net (Expense)	
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Assets	
				2004	2003
Governmental Activities					
Health & Welfare - Mental Health	<u>\$ 7,851,269</u>	<u>\$ 7,468,029</u>	<u>\$ 151,461</u>	<u>\$ (231,779)</u>	<u>\$ (111,219)</u>
General revenues					
Grants and contributions not restricted to specific programs				224,368	224,368
Unrestricted investment earnings				69,402	75,240
Restricted investment earnings				1,547	804
Miscellaneous revenues				21,069	16,932
Total general revenues and contributions				<u>316,386</u>	<u>317,344</u>
Change in net assets				<u>84,607</u>	<u>206,125</u>
Net assets, restated - beginning of year				4,244,117	4,435,438
Transfer to affiliate					(397,446)
Net assets - end of year				<u>\$ 4,328,724</u>	<u>\$ 4,244,117</u>

FUND FINANCIAL STATEMENTS

**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2004 AND 2003**

	GENERAL FUND	
	<u>2004</u>	<u>2003</u>
<u>ASSETS</u>		
Cash and investments	\$ 3,590,938	\$ 3,437,739
Accounts receivable:		
Client Services	110,295	149,708
Due from State of Michigan	85,927	53,545
Due from county	54,563	54,563
Due from affiliate		44,476
Due from internal service fund	84,623	29,517
Prepaid expenses	197,683	93,576
Cash - restricted	673,716	510,692
TOTAL ASSETS	<u>\$ 4,797,743</u>	<u>\$ 4,373,816</u>
 LIABILITIES:		
Accounts payable	\$ 141,679	\$ 114,345
Due to other governmental units	312,752	196,163
Accrued payroll	164,704	136,972
Accrued payroll taxes and benefits	15,495	18,814
Deferred revenue		28,274
TOTAL LIABILITIES	<u>634,630</u>	<u>494,568</u>
 FUND BALANCES:		
Reserved - prepaid items	197,683	93,576
Reserved - vested employee benefits	1,068,500	1,068,500
Reserved - compensated absences	350,583	318,395
Reserved - severance pay	61,480	58,000
Reserved - capital purposes	261,653	134,297
Unreserved	2,223,214	2,206,480
TOTAL FUND BALANCES	<u>4,163,113</u>	<u>3,879,248</u>
 TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 4,797,743</u>	<u>\$ 4,373,816</u>

The accompanying notes are an integral part
of the financial statements.

**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN**

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
Total fund balance - governmental funds	\$ 4,163,113	\$ 3,879,248

Amounts reported for governmental activities in the statement of activities are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: Capital assets	1,364,773	1,442,866
Deduct: Accumulated depreciation	(820,845)	(788,907)

An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Add: Net assets of governmental activities accounted for in the internal service fund	33,746	87,305
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Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Deduct: Severance pay	(61,480)	(58,000)
Deduct: Compensated absences	(350,583)	(318,395)

Net assets of governmental activities	<u>\$ 4,328,724</u>	<u>\$ 4,244,117</u>
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**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN**

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

REVENUES:	<u>2004</u>	<u>2003</u>
State grants		
State General Fund DCH Contract	\$ 1,057,710	\$ 1,040,014
Adult benefit waiver	142,491	
MI Child capitation	6,602	7,036
Title XX replacement	6,118	6,118
Other state grants	<u>16,652</u>	<u>16,992</u>
Total state grants	<u>1,229,573</u>	<u>1,070,160</u>
Federal grants		
Federal block grants	56,755	47,350
PAS / ARR Grant	<u>78,054</u>	<u>93,687</u>
Total federal grants	<u>134,809</u>	<u>141,037</u>
Contributions - Local units		
County appropriation	193,250	193,250
Senior grant	<u>25,000</u>	<u>25,000</u>
Total contributions - Local units	<u>218,250</u>	<u>218,250</u>
Charges for services		
Medicaid specialty managed care capitation	5,599,111	5,663,380
Medicaid fee for service	37,139	32,562
Earned contracts	77,651	150,456
Client and third party pay	<u>547,325</u>	<u>533,277</u>
Total charges for services	<u>6,261,226</u>	<u>6,379,675</u>
Interest income	69,402	75,240
Other revenue	22,739	16,932
TOTAL REVENUES	<u>7,935,998</u>	<u>7,901,294</u>

**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN**

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

EXPENDITURES:	<u>2004</u>	<u>2003</u>
Health & Welfare - Mental Health		
Personnel costs:		
Salaries & wages	3,441,313	3,307,757
Fringe benefits	1,412,128	1,340,200
Board per diem	9,568	8,728
Total personnel costs	<u>4,863,009</u>	<u>4,656,685</u>
 Operating expenditures:		
Alzheimers training	17,398	17,652
Books & periodicals	2,170	1,835
Building rental	167,780	148,579
Contract residential	535,054	565,292
Contractual - other	512,762	478,743
Court fees	1,206	3,055
Drugs & pharmaceuticals	12,683	15,228
Dues & subscriptions	7,060	7,189
Emergency housing	8,355	9,863
Equipment rental	846	1,692
Food	33,535	37,127
Inpatient - private	65,517	124,663
Inpatient - state	20,259	49,982
Insurance & bonds	63,212	117,440
Medical	640	2,347
Other operating expense	133,609	131,679
Printing, postage & advertising	30,122	27,965
Regional manage care administration	38,479	36,741
Repairs & maintenance	160,347	156,643

**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN**

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

EXPENDITURES: (CONTINUED)	<u>2004</u>	<u>2003</u>
Operating expenditures: (continued)		
Supplies	140,708	105,582
Telephone	60,373	65,474
Travel	83,740	78,819
Utilities	51,095	47,089
Work activity	509,487	436,437
Local funds paid to PIHP	168,799	168,799
Total operating expenditures	<u>2,825,236</u>	<u>2,835,915</u>
 Capital Outlay	 18,995	 63,286
 TOTAL EXPENDITURES	 <u>7,707,240</u>	 <u>7,555,886</u>
 OTHER FINANCING SOURCES:		
Operating transfer in	55,106	29,517
 EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES	 <u>283,864</u>	 <u>374,925</u>
 FUND BALANCE, OCTOBER 1	 3,879,248	 3,504,323
 FUND BALANCE - SEPTEMBER 30	 <u><u>\$ 4,163,112</u></u>	 <u><u>\$ 3,879,248</u></u>

The accompanying notes are an integral part
of the financial statements.

**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
Net change in fund balances - total governmental funds	\$ 283,864	\$ 374,925

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated lives as depreciation expense.

Add: Capital outlay	18,995	63,286
Deduct: Net book value of disposals	(1,670)	
Deduct: Depreciation expense	(127,356)	(134,297)

An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The net revenue of the fund attributable to those funds is reported with governmental activities.

Add: Interest income from governmental internal service fund	1,547	804
Operating transfer from internal service fund to general fund	(55,106)	(29,517)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct: Increase in accrual for severance pay	(3,480)	(8,000)
Deduct: Increase in accrual for compensated absences	(32,188)	(61,079)

Change in net assets of governmental activities	<u>\$ 84,607</u>	<u>\$ 206,125</u>
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**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN**

**STATEMENT OF FUND NET ASSETS
PROPRIETARY FUND
SEPTEMBER 30, 2004 AND 2003**

	<u>INTERNAL SERVICE FUND</u>	
	<u>2004</u>	<u>2003</u>
<u>ASSETS</u>		
Cash and investments	\$ 120,773	\$ 119,226
TOTAL ASSETS	<u>\$ 120,773</u>	<u>\$ 119,226</u>
 <u>LIABILITIES</u>		
Due to governmental fund	\$ 84,623	\$ 29,517
Due to affiliate	<u>2,404</u>	<u>2,404</u>
TOTAL LIABILITIES	<u>87,027</u>	<u>31,921</u>
 <u>NET ASSETS</u>		
Restricted for risk management	<u>33,746</u>	<u>87,305</u>
TOTAL NET ASSETS	<u>33,746</u>	<u>87,305</u>
 TOTAL LIABILITIES AND NET ASSETS	<u>\$ 120,773</u>	<u>\$ 119,226</u>

The accompanying notes are an integral part of the financial statements.

**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN**

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

	<u>INTERNAL SERVICE FUND</u>	
	<u>2004</u>	<u>2003</u>
NON-OPERATING REVENUES:		
Interest income	\$ 1,547	\$ 804
INCOME BEFORE TRANSFERS	<u>1,547</u>	<u>804</u>
OTHER FINANCING USES:		
Transfers to governmental fund:		
Abatement of prior risk funding	(3,878)	
Use of funds to finance risk	(51,228)	(29,517)
Transfer to affiliate		<u>(397,446)</u>
TOTAL OTHER FINANCING USES	<u>(55,106)</u>	<u>(426,963)</u>
CHANGE IN NET ASSETS	<u>(53,559)</u>	<u>(426,159)</u>
NET ASSETS, RESTATED - OCTOBER 1	87,305	513,464
NET ASSETS - SEPTEMBER 30	<u>\$ 33,746</u>	<u>\$ 87,305</u>

The accompanying notes are an integral part of the financial statements.

**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

	INTERNAL SERVICE FUND	
	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Adjustment to reconcile net income to net cash provided by operating activities:		
Increase in:		
Due to governmental fund		\$ 145,117
Due to affiliate		<u>2,404</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		<u>147,521</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfer to governmental fund		(29,517)
Transfer to affiliate		<u>(397,446)</u>
NET CASH (USED) BY NONCAPITAL FINANCING ACTIVITIES		<u>(426,963)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	\$ 1,547	804
NET INCREASE (DECREASE) IN CASH	<u>1,547</u>	<u>(278,638)</u>
CASH - BEGINNING OF THE YEAR	119,226	397,864
CASH - END OF THE YEAR	<u>\$ 120,773</u>	<u>\$ 119,226</u>

**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2004 AND 2003**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accompanying financial statements of Huron Behavioral Health have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). In June of 1999, the GASB issued Statement 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. This Statement established new financial reporting requirements for state and local governments throughout the United States. They require new information and restructure much of the information that governments have presented in the past.

Huron Behavioral Health has adopted the provisions of GASB Statement 34 for its fiscal year ended September 30, 2003. With the implementation of GASB 34, the Authority has prepared required supplementary information titled *Management's Discussion and Analysis* which precedes the basic financial statements.

Other GASB Statements are required to be implemented in conjunction with GASB Statement 34. Therefore, the Authority has implemented the following additional GASB Statements in the fiscal year ended September 30, 2003:

- #37 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus – (an Amendment to No. 34)*
- #38 – *Certain Financial Statement Note Disclosures.*

Reporting Entity

Huron Behavioral Health is an Authority that operates under the provisions of Act 258 – Public Acts of 1974 (the Michigan Mental Health Code), as amended. The Authority arranges for or provides supports and services for persons with developmental disability, adults with severe or mental illness, children with serious emotional disturbance, and individuals with addictive disorder and substance abuse. These supports and services are made available to residents of the County of Huron who meet eligibility and other criteria. As the community of members, assuring local access, organizing and integrating the provision of services, coordinating care, implementing public policy, ensuring interagency collaboration, and preserving the public interest.

The accounting policies of Huron Behavioral Health conform to accounting principles generally accepted in the United States of America as applicable to governmental units.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Authority (GASB) Statement No. 14 "The Financial Reporting Entity," these financial statements present all of the Authority's funds. The criteria established by the GASB for determining the reporting entity include oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the activities of Huron Behavioral Health. *Governmental activities* normally are supported by intergovernmental revenues.

(Continued)

**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2004 AND 2003**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)
Government-Wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is Huron Behavioral Health's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor have been met.

Fund Financial Statements – The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, Huron Behavioral Health considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

An exception to the "60 day" rule is the recognition of certain patient fee revenues and the related receivables. The Authority has elected to recognize these revenues on the accrual basis of accounting. The difference between the accrual basis of accounting and modified accrual basis of accounting for these revenues is not material to the financial statements.

Modifications to the accrual basis of accounting include:

- Employees' vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at September 30, 2004, has been reported only in the government-wide financial statements.
- Interest on general long-term obligations is recognized when paid.
- Debt service expenditures and claims and judgments are recorded only when payment is due.

(Continued)

**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2004 AND 2003**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Proprietary Fund Financial Statements – The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the internal service fund are charges to other funds for insurance services. Operating expenses for internal service funds include the cost of claims, administration and reinsurance. Any revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Fund Accounting

The financial activities of Huron Behavioral Health are recorded in individual funds, each of which is deemed to be a separate accounting entity. Huron Behavioral Health uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The financial activities of Huron Behavioral Health that are reported in the accompanying financial statements have been classified into the following major governmental and proprietary funds.

Governmental Funds

General Fund – This fund is Huron Behavioral Health's primary operating fund. It accounts for all the financial resources except those required to be accounted for in other funds.

Proprietary Funds

Internal Service Fund – This fund represents amounts restricted for risk management and set aside to fund the net uninsured exposure of potential shortfalls of DCH risk contract revenues.

**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2004 AND 2003**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Budgetary Data

Huron Behavioral Health's general fund budget is under formal budgetary control and follows both Huron Behavioral Health's and Michigan Department of Community Health's annual budget process in establishing the budgetary data presented in the financial statements. The annual fiscal budget is adopted on a basis consistent with generally accepted accounting principles and the requirements of the Michigan Department of Community Health.

Cash and Cash Equivalents

In accordance with Michigan Compiled Laws, Huron Behavioral Health is authorized to invest in obligations of the U.S. Treasury including its agencies and instrumentalities, certificates of deposit, savings accounts, deposit accounts or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC), commercial paper rated in the three (3) highest classifications of two rating services, United States government or federal agency obligation repurchase agreements, and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Huron Behavioral Health's deposits are in accordance with statutory authority.

A specific amount of cash has been restricted for future payment of the compensated absences, since it has been charged to the Department of Community Health. Huron Behavioral Health has established a separate cash account to monitor this future liability.

Receivables

Uncollectible accounts are provided for using the allowance method based on historical experience and management's evaluation of outstanding accounts receivable. Based on these factors, there is an allowance for uncollectible accounts of \$43,953 at September 30, 2004 and 2003.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in both government-wide and fund financial statements.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2004 AND 2003**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Capital Assets

Capital assets, which include property, plant and equipment are reported in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Capital assets of Huron Behavioral Health are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land	N/A
Buildings and Improvements	20 – 30
Equipment and Furnishings	5 – 10
Computers	3
Vehicles	5

Incurred But Not Reported Claims Liability

The amounts recorded in current liabilities include amounts for incurred inpatient, residential and community provider claims liability based on management's estimate. The Authority may not be billed for these until several months after the date of service. Therefore, the liability is not liquidated within the normal 60-day period after year-end. Also, the actual cost may vary from the estimated amount for a variety of reasons that include, but are not limited to, retroactive consumer eligibility or cost recovery from other third party payers.

Deferred Revenue

Deferred revenues arise when resources are received by the Authority before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Authority has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2004 AND 2003**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Compensated Absences

Huron Behavioral Health's policy allows full time employees to accumulate vacation time and sick time, at various rates, depending on the employee's length of service with Huron Behavioral Health. The governmental fund financial statements record expenditures when employees are paid for these compensated absences. The government-wide financial statements record the expense and the related liability when these compensated absences are earned by employees.

Governmental Fund – Fund Balance Reserves and Designations

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use. The reserves for related assets such as prepaid expenses are examples of the former. Reserves for compensated absences are examples of the later.

By resolution of the Authority's board, reserved fund balances in the amount of \$1,939,899 and \$1,672,768 as of September 30, 2004 and 2003 were established to provide for payment of future liabilities related to the following:

	<u>2004</u>	<u>2003</u>
Prepaid expenses	\$ 197,683	\$ 93,576
Compensated absences	350,583	318,395
Retirement and other post-employment benefits	1,068,500	1,068,500
Severance pay	61,480	58,000
Capital purposes	<u>261,653</u>	<u>134,297</u>
Total	<u>\$1,939,899</u>	<u>\$1,672,768</u>

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Budgetary Information

As set forth by State law, the CMH Board adopts an annual budget on a government wide basis. The annual budget is adopted on the full accrual basis of accounting in accordance with GASB Statement 34. The Executive Director is authorized to transfer budgeted amounts within departments; however, any revisions that alter the total expenditures must be approved by the CMH Board. For the year ended September 30, 2004, the original budgeted expenditures amounted to \$7,681,594. During the fiscal year ended September 30, 2004, the Board approved no budget amendments. The government wide budget is presented in the Statement of Revenue and Expenses - Budget and Actual. All annual appropriations lapse at the end of the fiscal year.

Excess of Expenditures Over Appropriations

Budget control has been established by the CMH Board at the level of the following expenditure categories: Contractual providers, Program operations, Managed care administration, General and Board administration, Local funds contribution, and Depreciation. During the year ended September 30, 2004, Huron Behavioral Health incurred expenditures in the following categories which were in excess of the budgeted amounts:

(Continued)

**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2004 AND 2003**

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY: (CONTINUED)

Excess of Expenditures Over Appropriations (Continued)

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
Contractual providers	\$1,254,299	\$1,256,436	\$ (2,137)
Program operations	5,095,236	5,211,935	(116,699)
General & Board administration	913,533	967,711	(54,177)

NOTE 3 - CASH AND INVESTMENTS:

As of September 30, 2004 and 2003, the Authority's cash balances are as follows:

	<u>2004</u>	<u>2003</u>
Carrying amount of cash and investments		
Unrestricted – General Fund	\$3,590,938	\$3,437,739
Restricted – General Fund	673,716	510,692
Internal Service Fund	120,773	119,226
Total carrying amount of cash and investments	<u>\$4,385,427</u>	<u>\$4,067,657</u>

The bank balances of the cash and investments are classified as follows:

	<u>2004</u>	<u>2003</u>
Insured by FDIC	\$1,076,783	\$1,013,386
Uninsured and uncollateralized	3,132,267	2,520,067
Cash management account backed by government securities	220,484	617,859
Total bank balance of cash and investments	<u>\$4,429,534</u>	<u>\$4,151,312</u>

Restricted cash balances have been set aside for the following purposes:

	<u>2004</u>	<u>2003</u>
Capital purposes	\$261,653	\$134,297
Payment of compensated absences	350,583	318,395
Payment of severance pay	61,480	58,000
Medicaid risk funding	33,746	87,305
Total restricted cash	<u>\$707,462</u>	<u>\$597,997</u>

NOTE 4 – DUE FROM OTHER GOVERNMENTAL UNITS:

Due from other governmental units as of September 30, consists of the following:

	<u>2004</u>	<u>2003</u>
State of Michigan	\$85,927	\$53,545
County of Huron	54,563	54,563
Bay-Arenac Behavioral Health	-	44,476
Total	<u>\$140,490</u>	<u>\$152,584</u>

**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2004 AND 2003**

NOTE 5 – CHANGES IN CAPITAL ASSETS:

The following is a summary of the changes in the depreciable capital assets of Huron Behavioral Health for the year ended September 30, 2004:

	BALANCE SEPTEMBER 30, 2003	ADDITIONS	REDUCTIONS	BALANCE SEPTEMBER 30, 2004
Office equipment	\$ 272,945		\$ 14,101	\$ 258,844
Computer equipment	282,410		86,077	196,333
Transportation equipment	610,902	\$18,995		629,897
Building improvement	48,124			48,124
Land Improvement	13,075			13,075
Land and buildings	218,500			218,500
TOTAL CAPITAL ASSETS	<u>\$1,445,956</u>	<u>\$ 18,995</u>	<u>\$100,178</u>	<u>\$1,364,773</u>

ACCUMULATED DEPRECIATION

	BALANCE SEPTEMBER 30, 2003	DEPRECIATION EXPENSE	DISPOSALS	BALANCE SEPTEMBER 30, 2004	NET BOOK VALUE
Office equipment	\$ 132,322	\$ 21,672	\$ 12,431	\$ 141,563	\$117,281
Computer equipment	242,117	18,442	86,077	174,482	21,851
Transportation equipment	402,780	81,375		484,155	145,742
Building improvement	1,404	1,203		2,607	45,517
Land Improvement		327		327	12,748
Land and buildings	13,374	4,337		17,711	200,789
TOTAL	<u>\$ 791,997</u>	<u>\$ 127,356</u>	<u>\$ 98,508</u>	<u>\$ 820,845</u>	<u>\$543,928</u>

NOTE 6 – DUE TO OTHER GOVERNMENTAL UNITS:

Due to other governmental units as of September 30, consist of the following:

	2004	2003
State of Michigan – Risk Fund		\$ 2,662
State of Michigan – Inpatient Care	\$ 42,151	184,530
Prepaid Inpatient Health Plans		8,971
Bay-Arenac Behavioral Health	273,005	2,404
Total	<u>\$315,156</u>	<u>\$198,567</u>

NOTE 7 – ACCRUED WAGES AND PAYROLL LIABILITIES:

This liability represents amounts paid to employees during October that were earned during September. Also included are recurring payroll liabilities that are incurred on a monthly basis.

(Continued)

**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2004 AND 2003**

NOTE 8 – LONG-TERM DEBT – COMPENSATED ABSENCES:

Authority policy allows full time employees to accumulate annual leave time at various rates, depending on the employee's length of service with Huron Behavioral Health. Amounts accumulated up to a maximum of 30 days are to be paid to the employee and recognized as an expense either when annual leave time is used, or at the discretion of Huron Behavioral Health, upon termination of employment.

Employees also accumulate sick leave time at various rates, depending on the date of hire. Amounts accumulated up to a maximum of 100 days are to be paid to the employee and recognized as an expense either when sick leave time is used, or at the discretion of Huron Behavioral Health, upon termination of employment.

As of September 30, 2004, this liability was \$350,583.

The following is a summary of the changes in long-term debt of Huron Behavioral Health for the year ended September 30, 2004:

	BALANCE SEPTEMBER 30, 2003	ADDITIONS	REDUCTIONS	BALANCE SEPTEMBER 30, 2004
Accrued compensated absences	\$318,395	\$32,188		\$350,583
Employee severance pay	58,000	3,480		61,480
TOTALS	<u>\$376,395</u>	<u>\$35,668</u>	<u>\$ -</u>	<u>\$412,063</u>

NOTE 9 – UNEMPLOYMENT COMPENSATION:

Huron Behavioral Health is a reimbursing employer for purposes of unemployment insurance claims against the employer. Huron Behavioral Health reimburses the State of Michigan for all benefits charged against it in the event of termination of employment and subsequent claims of its employees. Because an estimate cannot be made, the contingent liability for unemployment insurance claims is not recognized in the accompanying financial statements. This expense is recognized as incurred.

NOTE 10 – OPERATING LEASES:

On January 1, 2004, the Authority entered into a lease agreement with the Huron County Board of Commissioners to lease office space. The terms of the lease require monthly payments of \$11,597 for a period of one year beginning January 1, 2004. The Authority is responsible for all expenses of operation including utilities and maintenance. Future minimum lease payments at September 30, 2004 are \$34,791.

The lease further provides for cancellation by the Authority if the purpose for which the lease was entered into no longer exists due to executive, legislative or local government order or insufficient allocation of funds for this location by the Michigan State Department of Community Health and/or the Huron County Board of Commissioners.

**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2004 AND 2003**

NOTE 10 – OPERATING LEASES: (CONTINUED)

The Authority entered into various lease arrangements for housing residential and day activity facilities. The terms of the leases require monthly payments amounting to \$3,641. The Authority is responsible for all expenses of operation including utilities and maintenance.

The leases also provide for an optional renewal term with monthly lease payments to be determined based on an agreed upon formula. The leases further provide for cancellation by the Authority in the event funding is terminated, reduced or licensing is withheld.

NOTE 11 – RETIREMENT SYSTEM:

The Authority participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all full-time employees. The System provides retirement, disability and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 447 N. Canal Road, Lansing, MI 48917.

Under provisions of state statutes, all full-time employees must contribute 3% of the first \$4,200 of annual compensation and 5% of the portion over \$4,200 to the pension plan. In addition, the Authority must provide annual contributions sufficient to satisfy the actuarially determined contribution requirements as mandated by state statutes.

For the years ended September 30, 2004 and 2003, the Authority's annual pension cost of \$234,795 and \$212,251 for the plan was equal to the Authority's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003 and 2002, using the entry actual age cost method. Significant actuarial assumptions used include (a) an 8% investment rate of return, (b) projected salary increases of 4.5% per year and (c) 2.5% per year cost of living adjustments. Both (a) and (b) include an inflation component of 3%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis.

Three year trend information:

	Fiscal year ended December 31,		
	<u>2001</u>	<u>2002</u>	<u>2003</u>
Actuarial value of assets	\$38,200,151	\$39,200,151	\$43,052,480
Actuarial Accrued Liability	42,742,897	46,337,177	49,259,740
Unfunded AAL	4,542,746	7,137,026	6,207,260
Funded ratio	89%	85%	87%
Covered payroll	10,625,499	11,032,137	10,901,020
UAAL as a percentage of covered payroll	43%	65%	57%

**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2004 AND 2003**

NOTE 12- DEFERRED COMPENSATION:

Employees of Huron Behavioral Health may participate in a deferred compensation plan adopted under the provisions of Internal Revenue Code Section 457 (Deferred Compensation Plans With Respect to Service For State and Local Governments).

The deferred compensation plan is available to all employees of the Authority. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death or unforeseeable emergency.

The deferred compensation plan is administered by the Michigan Association of Counties. Under the terms of an IRC Section 457 deferred compensation plan, all deferred compensation and income attributable to the investment of the deferred compensation amounts held by the Administration, until paid or made available to the employees or beneficiaries, are the property of the Authority subject only to the claims of the Authority's general creditors. In addition, the participants in the plan have rights equal to those of the general creditors of the Authority and each participant's rights are equal to his or her share of the fair market value of the plan assets. The Authority believes that it is unlikely that plan assets will be needed to satisfy claims of general creditors that might arise.

NOTE 13 – OTHER POST-EMPLOYMENT BENEFITS:

In addition to pension benefits previously described, the Authority provides post-employment benefit options for group health insurance to eligible retirees and their dependents. The benefits are provided in accordance with Authority policy. The criteria to determine eligibility include years of service and employee age. The Authority funds the benefits on a pay-as-you-go basis. Employees with at least 10 years of full time service and age 55 or older are required to pay 50% of the group health insurance premiums with the Authority paying the remaining portion of the premiums. Employees with at least 15 years of full time service and age 55 or older are required to pay 25% of the group health insurance premiums with the Authority paying the remaining portion of the premiums. Employees with at least 20 years of full time service and age 55 or older; or that have at least 10 years of full time service and age 60 or older are not required to contribute to the payment of their group health insurance premiums. During the years ended September 30, 2004 and 2003, expenditures (net of participant contributions) of \$76,083 and \$127,801 were recognized for post-employment benefits. There are 10 participants currently eligible to receive post-employment health benefits.

NOTE 14 – RISK MANAGEMENT:

General Liability:

Huron Behavioral Health participates in the Michigan Municipal Risk Management Authority, which is a public entity risk pool, for the coverage of significant losses due to its general liability. The participation in the pool constitutes transfer of the risk for significant losses to the pool with a liability limit of \$10 million. The Authority is required to pay annual premiums to the Michigan Municipal Risk Management Authority for the liability coverage. The Authority reduced their liability insurance coverage by \$5 million and settlement amounts have not exceeded insurance coverage for the current year or the three prior years. The Authority also purchased commercial insurance coverage for losses related to their property, automobiles and commercial general liability.

(Continued)

**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2004 AND 2003**

NOTE 14 – RISK MANAGEMENT: (CONTINUED)

Workers' Compensation:

Huron Behavioral Health purchased commercial insurance to provide coverage of losses related to workers' compensation claims. The workers' compensation insurance provides coverage for up to a maximum of \$1,000,000 for each workers' compensation claim.

Employee Health Care:

For its risk of losses related to providing health care benefits to its employees and their dependents, the Authority established a partial self-insurance plan to cover claims for the medical costs of its employees and their dependents. The partial self-insurance plan provides coverage of up to \$616,760 of total medical care claims for the calendar year of 2004. For claims in excess of coverage of \$616,760, the Authority has purchased commercial insurance. Commercial insurance has also been purchased to provide vision and dental benefits for the employees of Huron Behavioral Health and their dependents. The following information relates to the Authority's partial self-insurance medical care plan for its employees:

	<u>2004</u>	<u>2003</u>
Partial self-insurance coverage limit	\$ 616,760	\$753,700
Medical care claims paid	730,535	760,678
Insurance reimbursements received	21,644	3,872
Annual medical care expense recognized	1,838,779	894,930

Managed Care Risk Contracts:

The Authority has a managed care risk contract with the State of Michigan for State General Fund Formula Funding for priority populations. The Authority self-insures the risk for this contract with an Internal Service Fund risk reserve. The State General Fund risk contract and reserve covers only the Authority's specific service area. The contract provides for the use of contract funds to establish the risk reserve that is restricted to meet future risk obligations. Expenditures from the Internal Service Fund risk reserve may occur if, in any one fiscal year, the Authority finds it necessary to expend more than its then current resources to provide contractually obligated supports and services for eligible individuals.

Contingent Liabilities:

Amounts received or receivable from federal, state and other grantor agencies are subject to audit and adjustment by the grantor. Any disallowed amounts, including amounts already collected, may constitute a liability. The amount, if any, of costs that may be disallowed cannot be determined at this time.

NOTE 15 – TRANSFERS BETWEEN FUNDS:

The Authority transferred \$55,106 from the Internal Service Fund risk reserve to the General Fund during the fiscal year. The transfer is in accordance with the criteria established by the Michigan Department of Community Health to meet risk corridor requirements of the managed care specialty supports and services program contracts.

**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2004**

NOTE 16 – TRANSFERS TO AFFILIATE:

As part of the State's contractual consolidation of regional Medicaid specialty supports and services, the affiliates were required to transfer \$397,446 of Medicaid risk reserve to Bay-Arenac Behavioral Health as of October 1, 2002, plus earned interest from that date to the date of transfer. The transfer represents a contractual transfer of equity to an affiliate.

NOTE 17 – RESTATEMENTS:

During the 2003 fiscal year, Huron Behavioral Health has implemented various GASB Statements, as noted in Note 1 – Summary of Significant Accounting Policies. As a result of implementing the new GASB Statements, the following restatements were made to beginning fund balance and net asset accounts:

*Fund Financial Statements –
Proprietary Fund –
Internal Service Fund –*

Fund balance as of 9/30/02	\$ 51,124
Add: risk corridor estimated liability	<u>462,340</u>
Fund balance as of 10/1/02	<u>\$513,464</u>

Government-wide financial statements –

Fund balance of special revenue fund as of 9/30/02	\$3,555,448
Add: risk corridor estimated liability	462,340
Add: governmental capital assets as of 9/30/02	1,397,706
Less: accumulated depreciation as of 9/30/02	(672,727)
Deduct: long-term debt as of 9/30/02	<u>(307,319)</u>
Governmental net assets, restated, as of 10/1/02	<u>\$4,435,448</u>

REQUIRED SUPPLEMENTAL INFORMATION

**HURON BEHAVIORAL HEALTH,
HURON COUNTY, MICHIGAN**

**GOVERNMENT-WIDE
STATEMENT OF ACTIVITIES - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

	ORIGINAL	FINAL	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES:				
State grants				
State General Fund DCH contract	\$ 999,107	\$ 999,107	\$ 1,057,710	\$ 58,603
Adult Benefit Waiver capitation	144,319	144,319	142,491	(1,828)
MiChild capitation	6,612	6,612	6,602	(10)
Title XX replacement	6,118	6,118	6,118	
Other state grants	3,807	3,807	16,652	12,845
Total state grants	<u>1,159,963</u>	<u>1,159,963</u>	<u>1,229,573</u>	<u>69,610</u>
Federal grants				
Federal block grants	39,609	39,609	56,755	17,146
PAS / ARR grant	76,201	76,201	78,054	1,853
Total federal grants	<u>115,810</u>	<u>115,810</u>	<u>134,809</u>	<u>18,998</u>
Contributions - local units				
County appropriation	193,250	193,250	193,250	
Senior grant	25,000	25,000	25,000	
Total contributions - local units	<u>218,250</u>	<u>218,250</u>	<u>218,250</u>	
Charges for services				
Medicaid specialty managed care capitation	5,550,892	5,550,892	5,599,111	48,219
Medicaid fee for service	34,604	34,604	37,140	2,536
Earned contracts	79,010	79,010	77,651	(1,359)
Client and third party payors	559,697	559,697	547,325	(12,372)
Total charges for services	<u>6,224,203</u>	<u>6,224,203</u>	<u>6,261,227</u>	<u>37,024</u>
Interest income	63,503	63,503	70,949	7,446
Other revenue	10,640	10,640	21,069	10,430
TOTAL REVENUES	<u>7,792,368</u>	<u>7,792,368</u>	<u>7,935,876</u>	<u>143,508</u>
EXPENSES:				
Health & Welfare - Mental Health				
Contractual providers	1,254,299	1,254,299	1,256,436	(2,137)
Program Operations	5,095,236	5,095,236	5,211,935	(116,699)
Managed Care Administration	119,699	119,699	119,033	666
General & Board Administration	913,533	913,533	967,711	(54,177)
Local Funds Contribution	168,801	168,801	168,799	2
Depreciation	130,026	130,026	127,356	2,670
TOTAL EXPENSES	<u>7,681,594</u>	<u>7,681,594</u>	<u>7,851,270</u>	<u>(169,675)</u>
CHANGE IN NET ASSETS	<u>\$ 110,774</u>	<u>\$ 110,774</u>	<u>\$ 84,607</u>	<u>\$ (26,167)</u>



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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Members of the Board
Huron Behavioral Health
Bad Axe, Michigan 48413

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information as of and for the year ended September 30, 2004, which collectively comprise Huron Behavioral Health's basic financial statements and have issued our report thereon dated November 19, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Huron Behavioral Health's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Huron Behavioral Health's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, others within the organization, Board of Trustees, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Nietzke & Faupel, PC
NIETZKE & FAUPEL, P.C.
PIGEON, MICHIGAN

November 19, 2004